



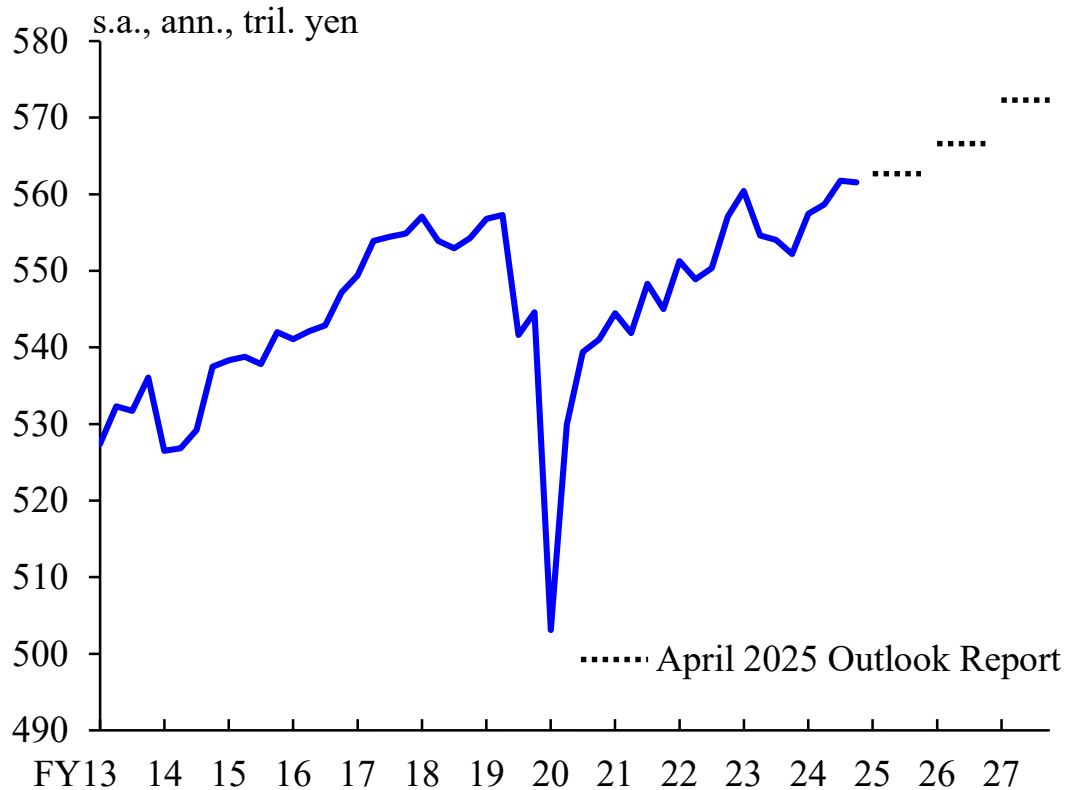
# **Economic Activity, Prices, and Monetary Policy in Japan**

*Speech at a Meeting with Local Leaders in Fukushima*

June 25, 2025

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Member of the Policy Board  
Bank of Japan

# The Bank's Forecasts for Real GDP

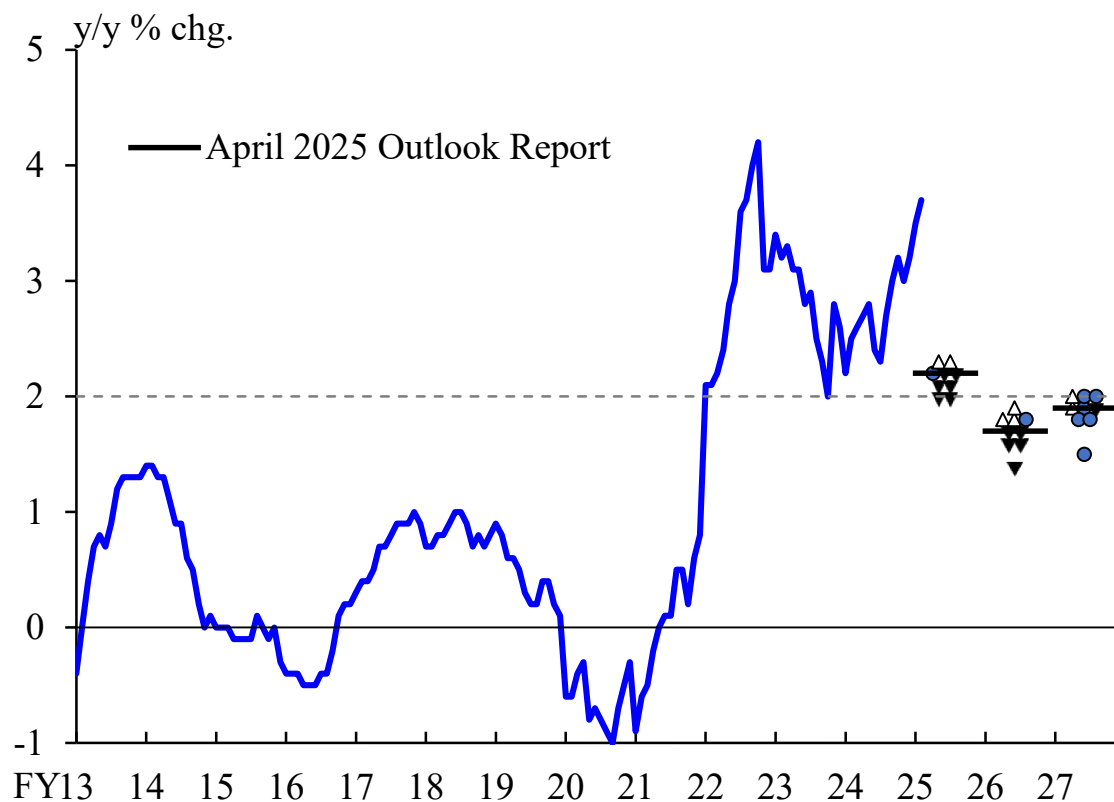


	January 2025 Outlook Report		April 2025 Outlook Report	
FY 2025	1.1%	→	0.5%	
FY 2026	1.0%	→	0.7%	
FY 2027	—		1.0%	

- Notes: 1. Forecasts are the medians of the Policy Board members' forecasts. Real GDP values for fiscal 2025 onward are calculated by multiplying the actual figure for fiscal 2024 by all successive projected growth rates for each year.
2. There are extremely high uncertainties regarding the future course of trade and other policies in each jurisdiction and the impact of these policies on economic activity and prices at home and abroad. The baseline scenario in the April 2025 Outlook Report was developed based on assumptions including the following: negotiations between jurisdictions will progress to some extent, and significant disruptions of global supply chains will be avoided. Attention is warranted on the possibility that the outlook for economic activity and prices could change considerably depending on the future course of the policies in each jurisdiction and the response of firms and households in these jurisdictions to the policies.

Sources: Cabinet Office; Bank of Japan.

# The Bank's Forecasts for the CPI



	January 2025 Outlook Report	April 2025 Outlook Report
FY 2025	2.4% →	2.2%
FY 2026	2.0% →	1.7%
FY 2027	—	1.9%

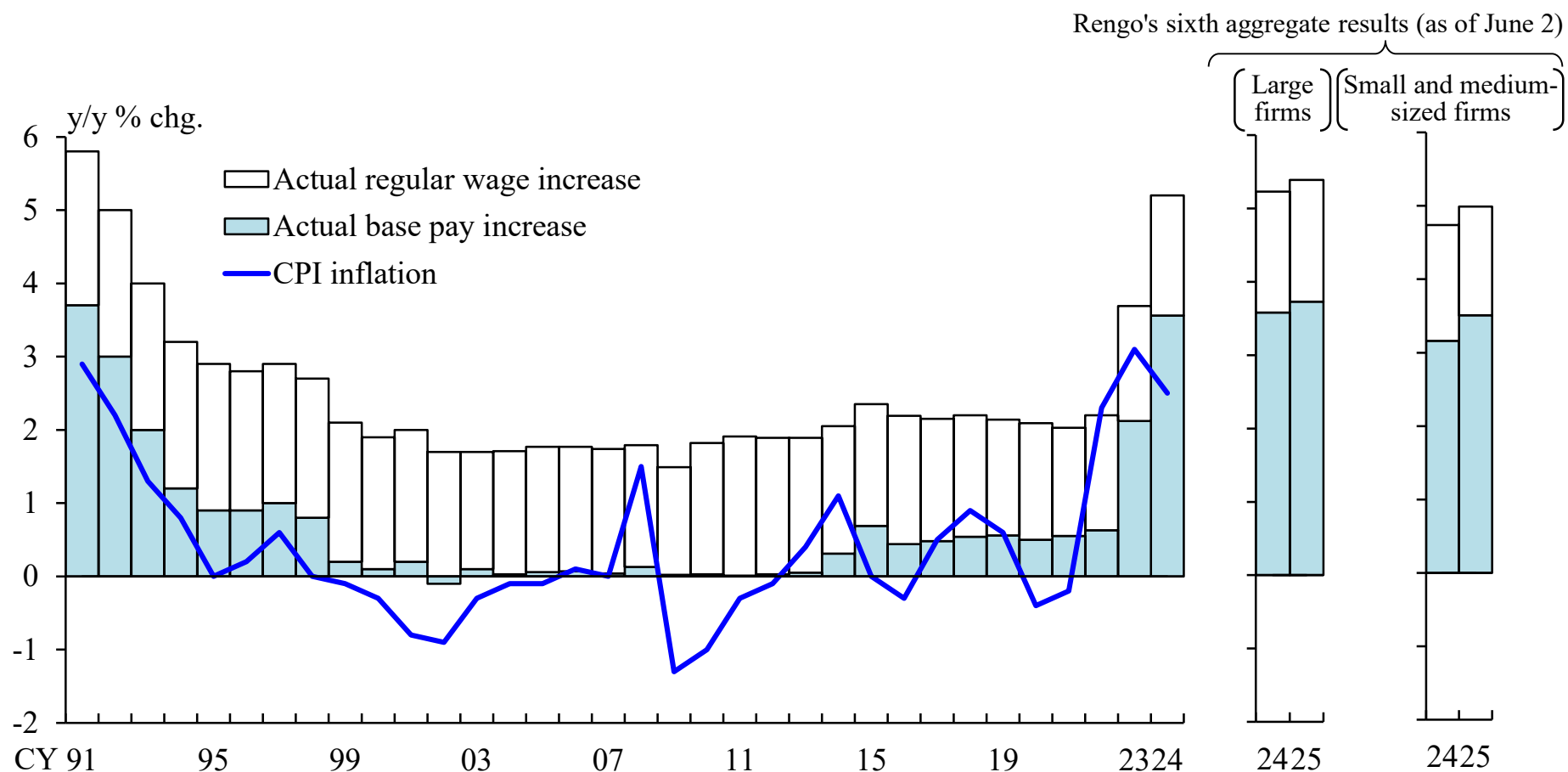
Notes: 1. Figures are the CPI for all items less fresh food, excluding the effects of the consumption tax hikes.

2. The locations of ●, △, and ▼ in the chart indicate the figures for each Policy Board member's forecasts. The risk balance assessed by each Policy Board member is shown by the following shapes: ● indicates that a member assesses "upside and downside risks as being generally balanced," △ indicates that a member assesses "risks are skewed to the upside," and ▼ indicates that a member assesses "risks are skewed to the downside." The dotted black lines show the medians of the Policy Board members' forecasts.

3. There are extremely high uncertainties regarding the future course of trade and other policies in each jurisdiction and the impact of these policies on economic activity and prices at home and abroad. The baseline scenario in the April 2025 Outlook Report was developed based on assumptions including the following: negotiations between jurisdictions will progress to some extent, and significant disruptions of global supply chains will be avoided. Attention is warranted on the possibility that the outlook for economic activity and prices could change considerably depending on the future course of the policies in each jurisdiction and the response of firms and households in these jurisdictions to the policies.

Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

# Results of the Annual Spring Labor-Management Wage Negotiations

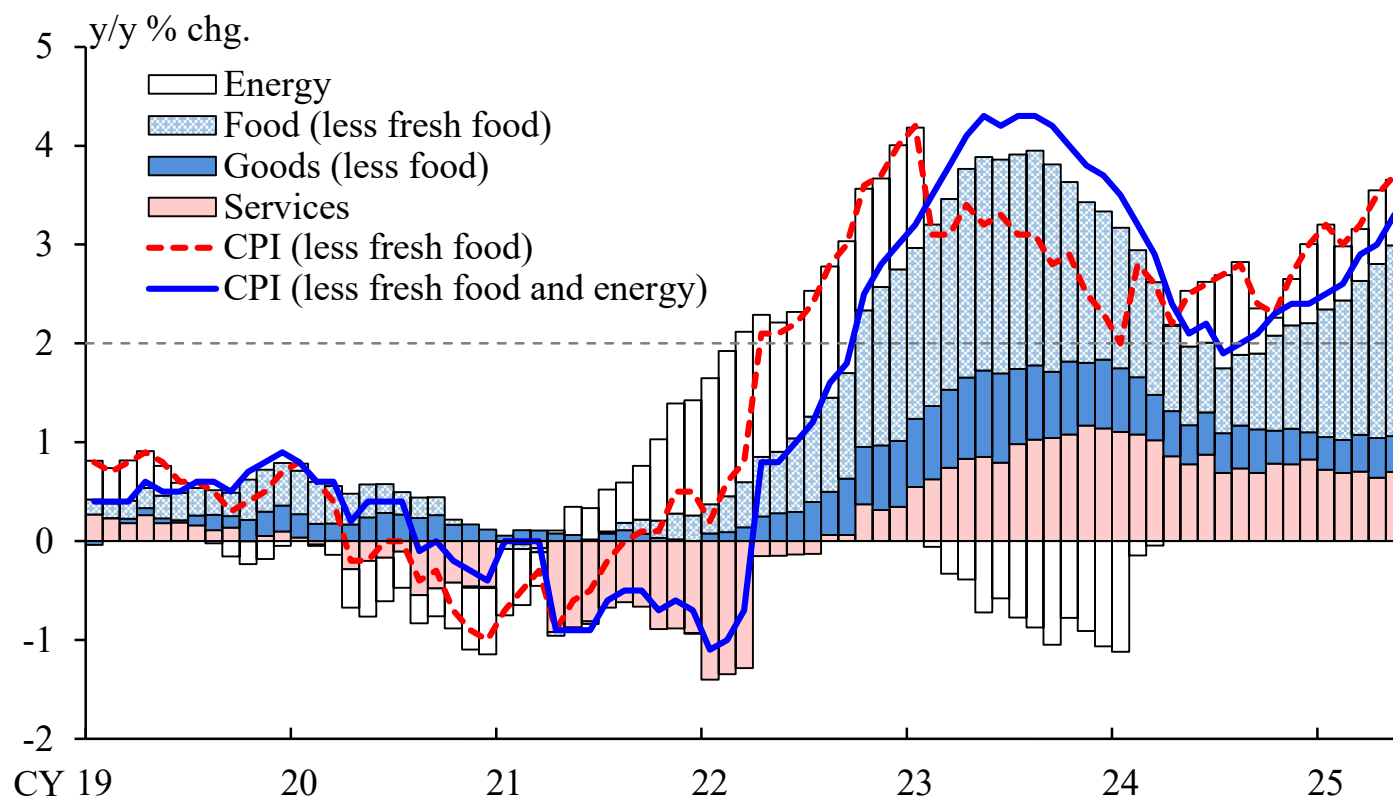


Notes: 1. Figures for "CPI inflation" are for all items less fresh food, excluding the effects of the consumption tax hikes, on a calendar-year basis.

2. Figures for "actual base pay increase" and "actual regular wage increase" from 1991 to 2014 are those published by the Central Labour Relations Commission, while those from 2015 to 2024 are figures released by the Japanese Trade Union Confederation (Rengo). Figures are based on the wage negotiation results of labor unions for which the base pay increase is clear.

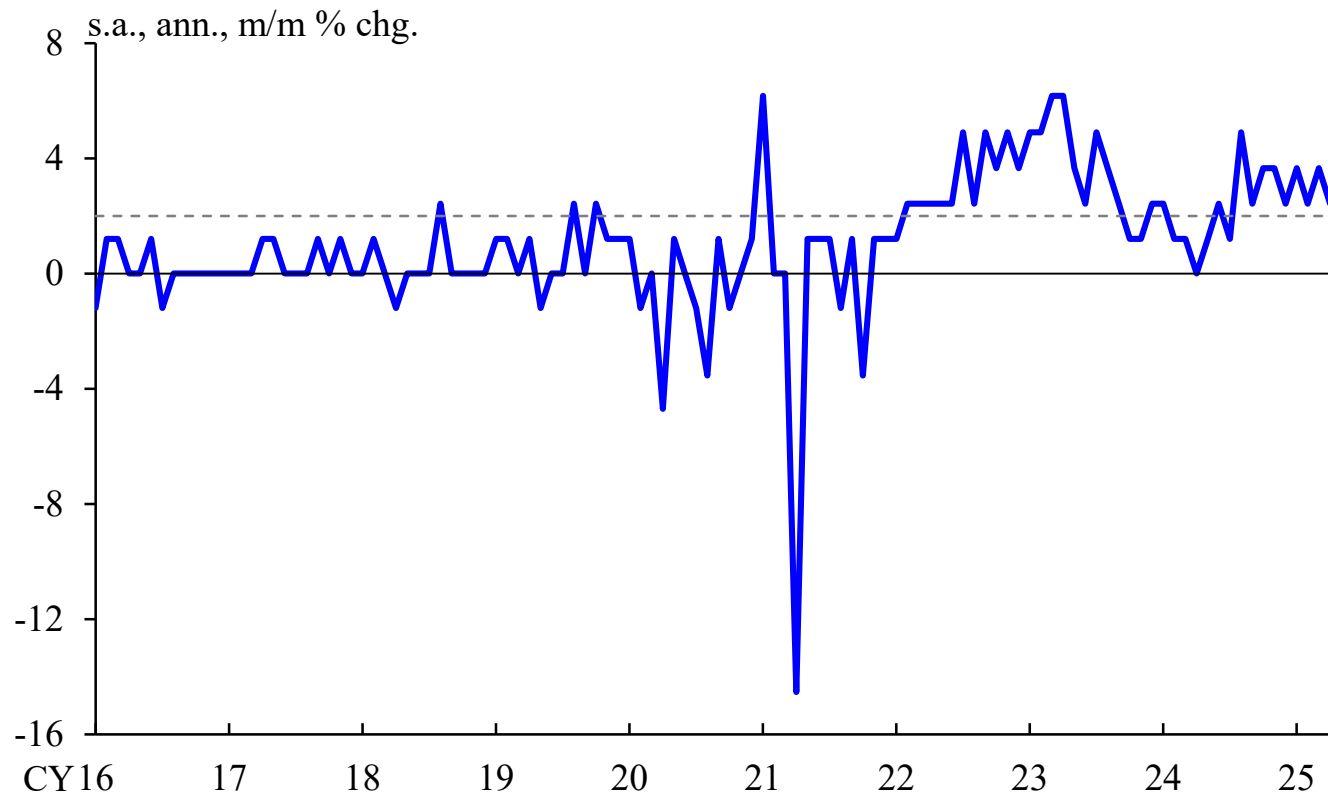
Sources: Central Labour Relations Commission; Ministry of Internal Affairs and Communications; Rengo.

# Consumer Prices



Source: Ministry of Internal Affairs and Communications.

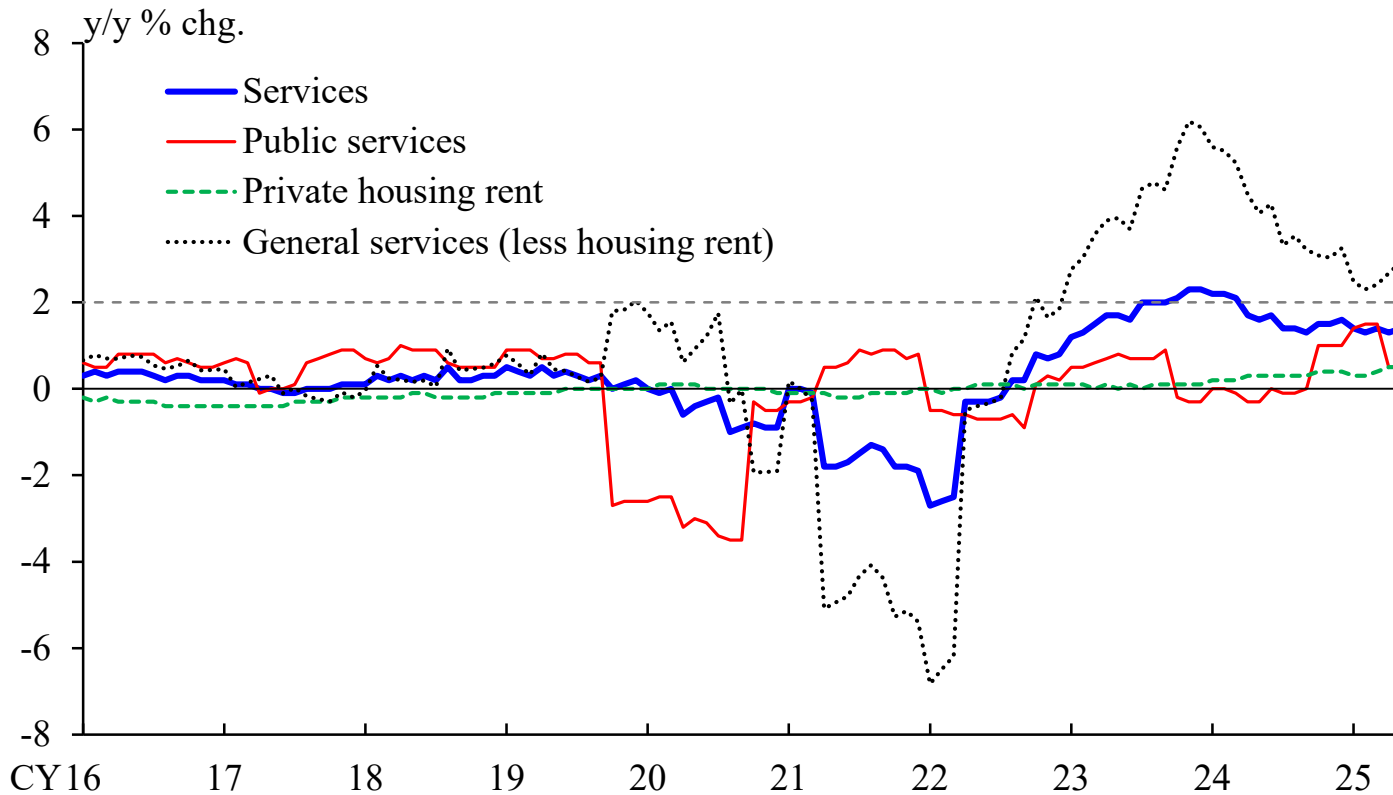
# Consumer Prices (Annualized Month-on-Month Rate of Change)



Note: Figures are the CPI for all items less fresh food and energy.

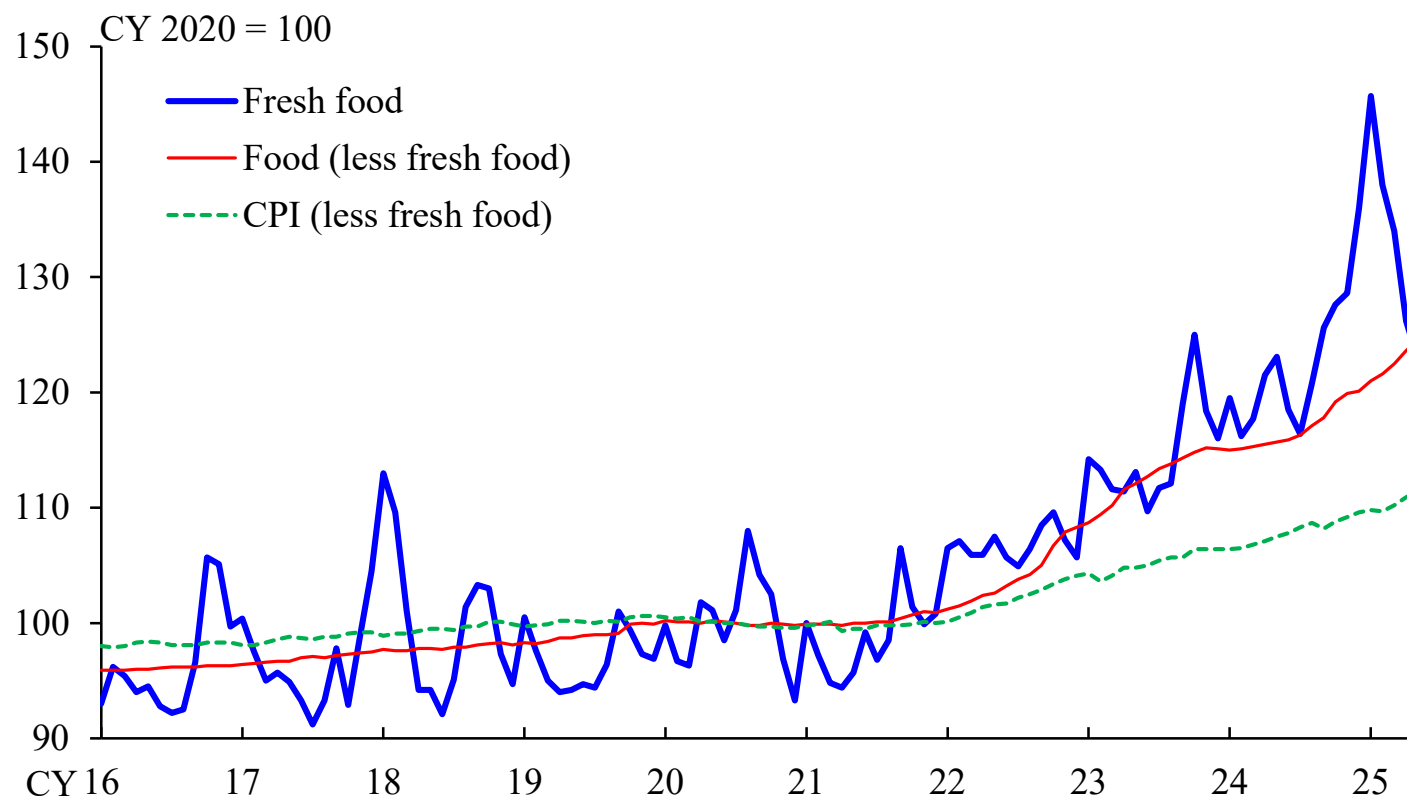
Source: Ministry of Internal Affairs and Communications.

# Consumer Prices (Housing Rent and Public Services)



Source: Ministry of Internal Affairs and Communications.

## Consumer Prices (Fresh Food and Other Food)

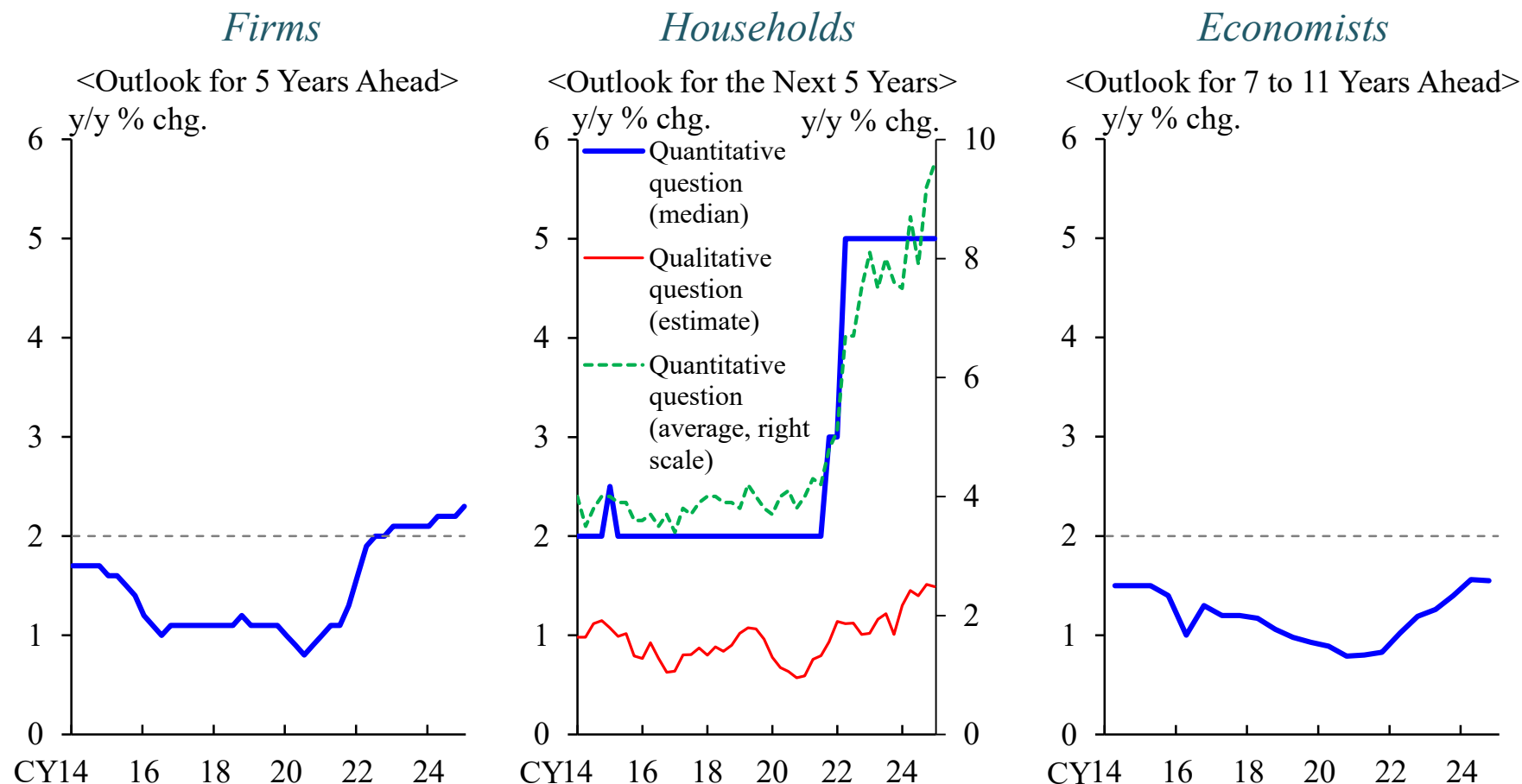


Note: "Fresh food" consists of fresh fish and seafood, fresh vegetables, and fresh fruits. "Food (less fresh food)" consists of rice, raw meat, eggs, various processed food products, and dining-out.

Source: Ministry of Internal Affairs and Communications.



# Inflation Expectations















Notes: 1. Figures for firms in the left panel are based on the *Tankan*, and are averages of all industries and enterprises.

2. Figures for households in the middle panel are based on the *Opinion Survey on the General Public's Views and Behavior*. Figures for the quantitative question are based on numerical values for expected inflation rates provided by respondents, and the average of those is calculated by excluding 0.5 percent of the highest and lowest figures, respectively, in order to avoid extremes. Figures for the qualitative question are estimated using the modified Carlson-Parkin method, quantifying the results of the 5-choice question, asking respondents their expectations for whether and to what degree prices will go up or down.

Sources: JCER, "ESP Forecast"; Bank of Japan.

# Impact of Trade Policies

## *Impact on Japan's Economic Activity and Prices*

Channel	GDP	Inflation
(1) Weaker global demand		
(2) Decrease in exports		
(3) Decrease in corporate profits		
(4) Exchange rate fluctuations	 	 
(5) Supply-chain disruptions, etc.		

## *The Bank's Forecasts for Real GDP and the CPI (April 2025 Outlook Report)*

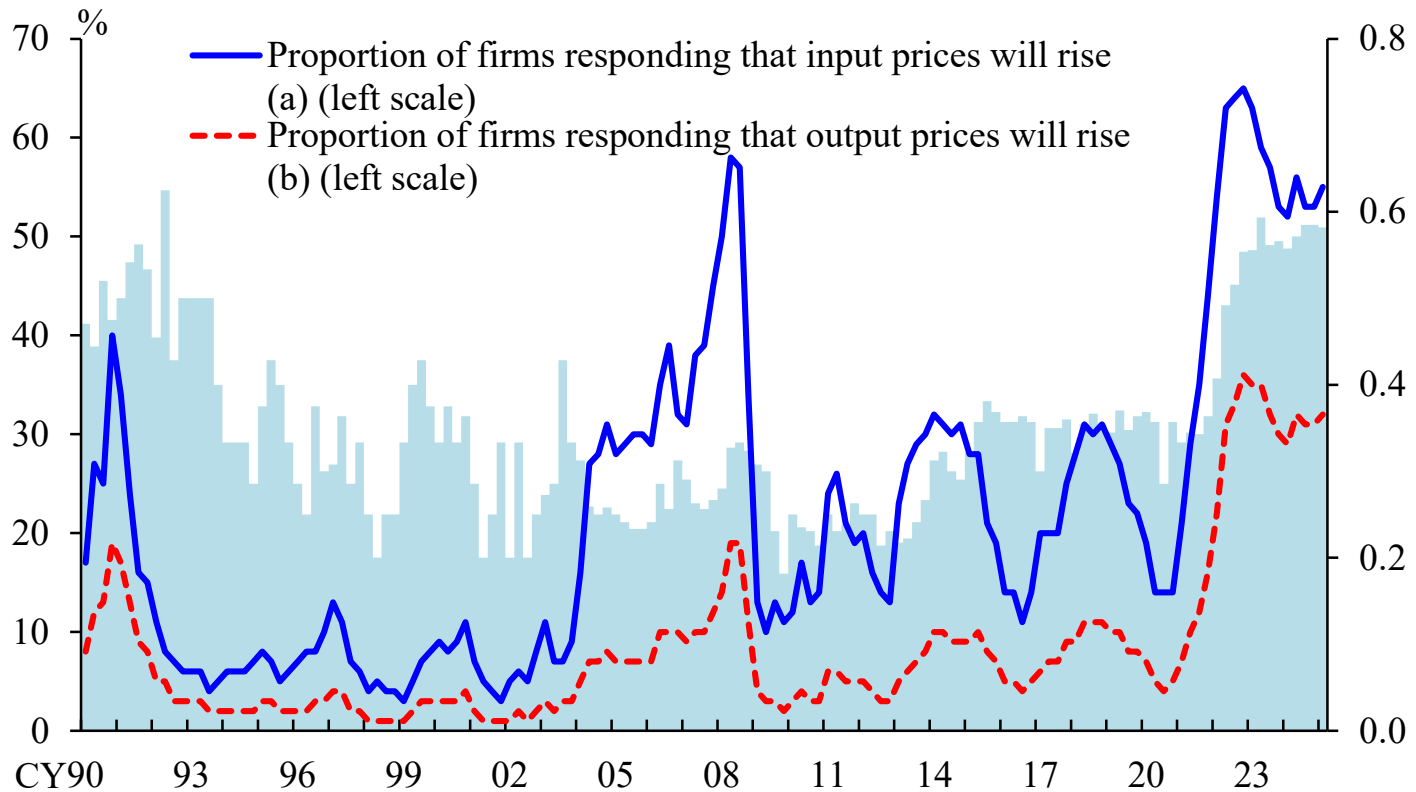
y/y % chg.

	Real GDP	CPI	
		Less fresh food	Less fresh food and energy
FY 2025	+0.5 ( -0.6 )	+2.2 ( -0.2 )	+2.3 ( +0.2 )
FY 2026	+0.7 ( -0.3 )	+ 1.7 ( -0.3 )	+1.8 ( -0.3 )
FY 2027	+1.0 ( — )	+1.9 ( — )	+2.0 ( — )

Note: Figures in the right panel are the medians of the Policy Board members' forecasts. Figures in parentheses indicate changes from the January 2025 Outlook Report. There are extremely high uncertainties regarding the future course of trade and other policies in each jurisdiction and the impact of these policies on economic activity and prices at home and abroad. The baseline scenario in the April 2025 Outlook Report was developed based on assumptions including the following: negotiations between jurisdictions will progress to some extent, and significant disruptions of global supply chains will be avoided. Attention is warranted on the possibility that the outlook for economic activity and prices could change considerably depending on the future course of the policies in each jurisdiction and the response of firms and households in these jurisdictions to the policies.

Source: Bank of Japan.

# Changes in Firms' Price-Setting Behavior

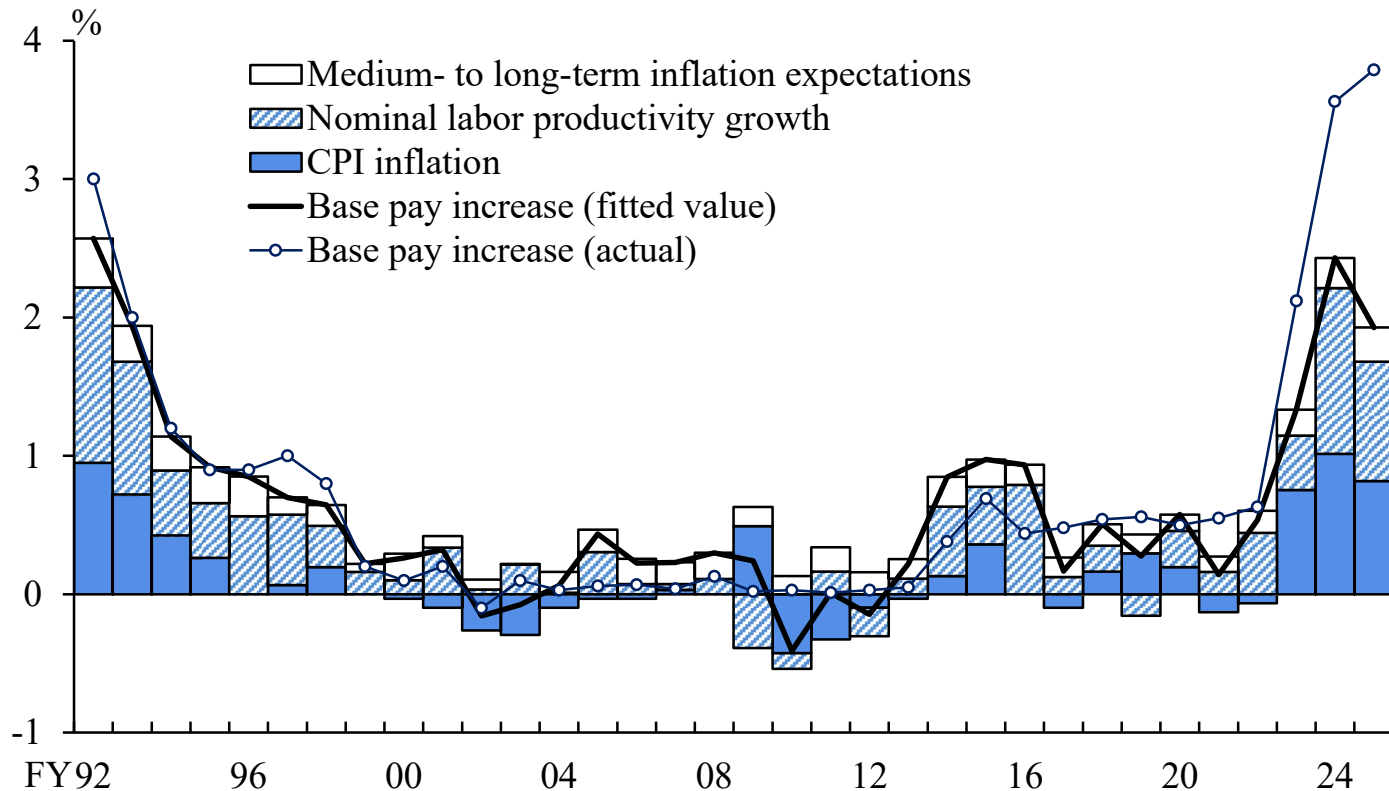


Note: Figures are based on the *Tankan*, and are for all industries and enterprises. There is a discontinuity in the data for December 2003 due to a change in the survey framework.

Source: Bank of Japan.

# Changes in Firms' Wage-Setting Behavior

## *Base Pay Increase (Actual and Fitted Value)*



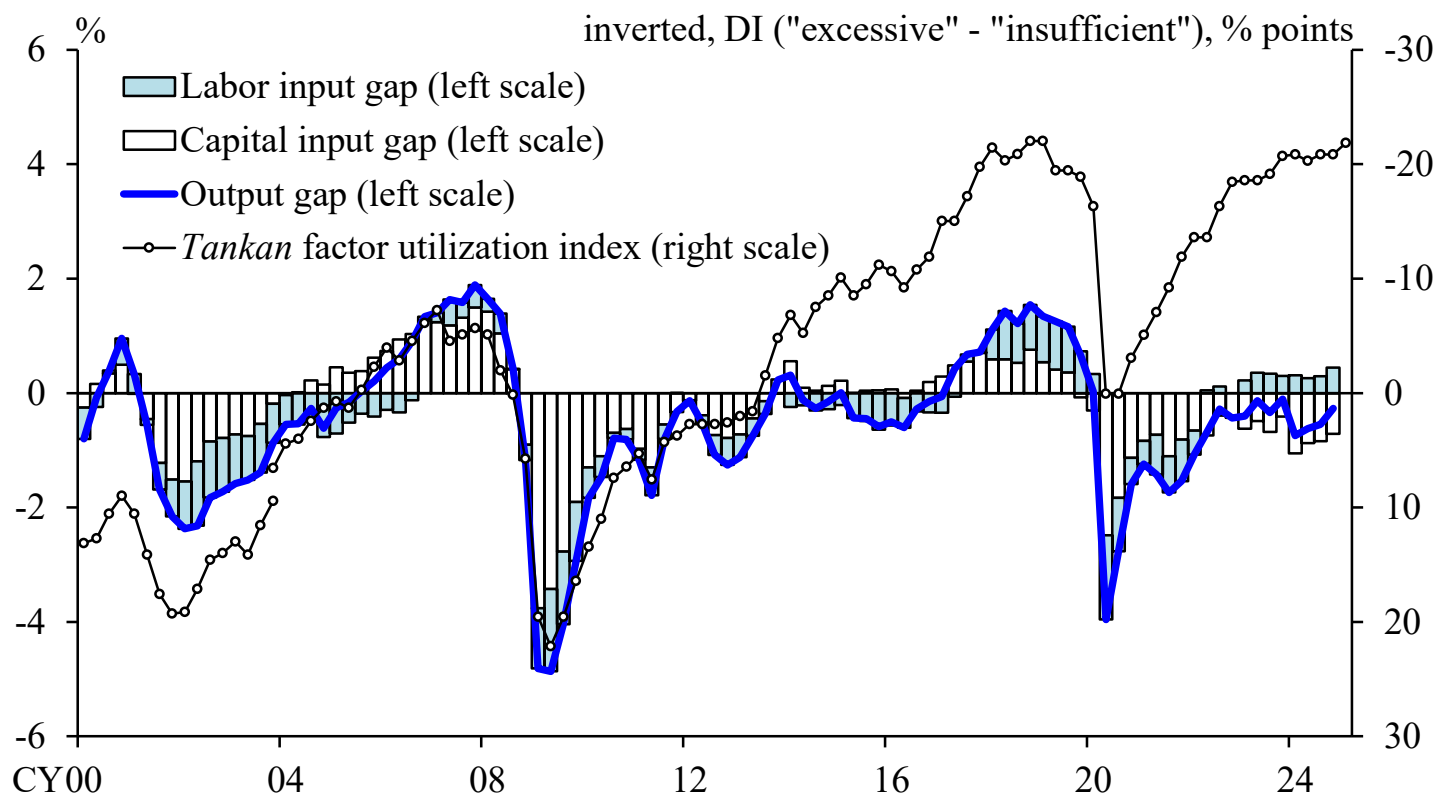
Notes: 1. Figures for CPI inflation are for all items less fresh food, excluding the effects of the consumption tax hikes, etc. Figures for actual base pay increases from fiscal 1992 to 2013 are those published by the Central Labour Relations Commission, while those from fiscal 2014 onward are figures released by Rengo (the figure for fiscal 2025 is from Rengo's fourth aggregate results).

2. The base pay regression for the estimation of base pay increases is specified as shown below. The estimation period is from fiscal 1992 to 2022.

$$\text{Base pay increase} = 0.33 \times \text{CPI inflation (t-1)} + 0.24 \times \text{nominal labor productivity growth (t-1)} + 0.13 \times \text{medium- to long-term inflation expectations (t-1)}$$

Sources: Cabinet Office; Central Labour Relations Commission; Ministry of Internal Affairs and Communications; Rengo; etc.

# Output Gap



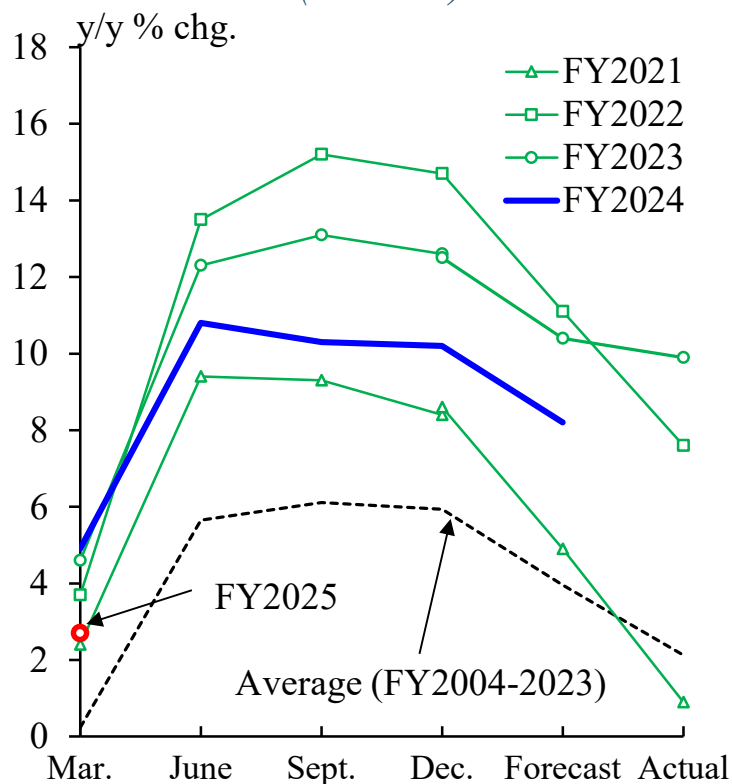
Notes: 1. Figures for the output gap are Bank staff estimates.

2. The *Tankan* factor utilization index is calculated as the weighted average of the production capacity DI and the employment conditions DI for all industries and enterprises. Capital and labor shares are used as weights. There is a discontinuity in the data for December 2003 due to a change in the survey framework.

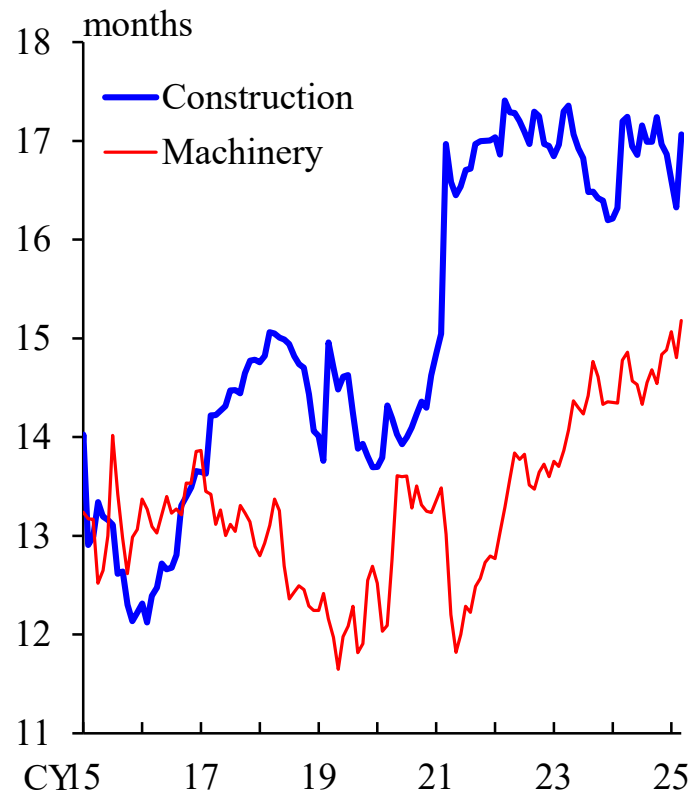
Source: Bank of Japan.

# Business Fixed Investment

*Business Fixed Investment Plans  
(Tankan)*



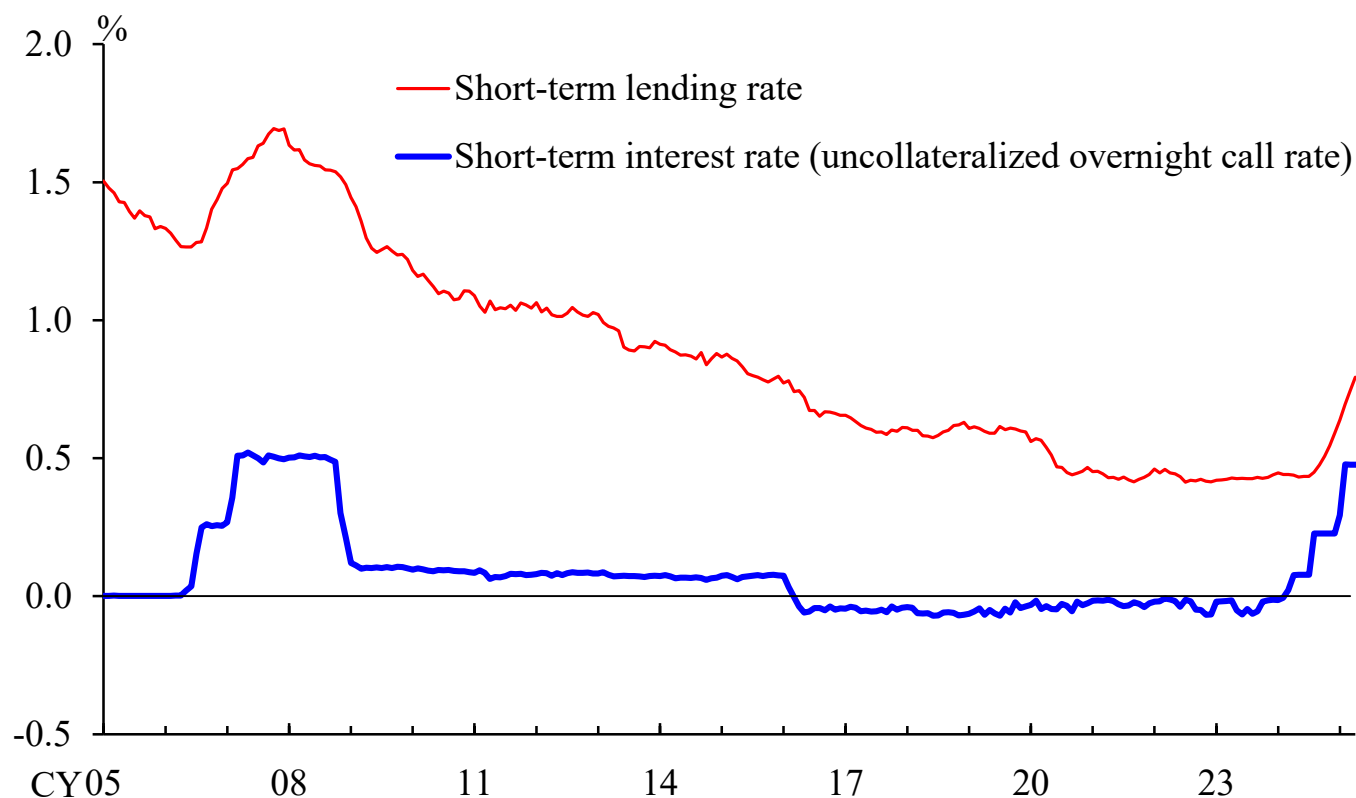
*Order Backlogs*



Notes: 1. In the left panel, figures include software and R&D investments and exclude land purchasing expenses. Figures are for all industries including financial institutions.  
 2. In the right panel, figures for "construction" are based on a survey of 50 major construction companies, and calculated as the value of construction work yet to be executed at the end of the last month of the quarter divided by the average value of construction work executed over the preceding 12 months. Figures for "machinery" are calculated as the value of machinery orders yet to be executed at the end of the last month of the quarter divided by the average sales over the preceding three months, and these data are seasonally adjusted.

Sources: Cabinet Office; Ministry of Land, Infrastructure, Transport and Tourism; Bank of Japan.

## Market Interest Rates and Lending Rates



Note: Lending rates indicate average contract interest rates on new loans and discounts of domestically licensed banks (6-month backward moving averages). Figures are yen-denominated loans on the banking book, excluding loans to financial institutions.  
Source: Bank of Japan.

# Plan for the Reduction of the Purchase Amount of JGBs (June 2025)

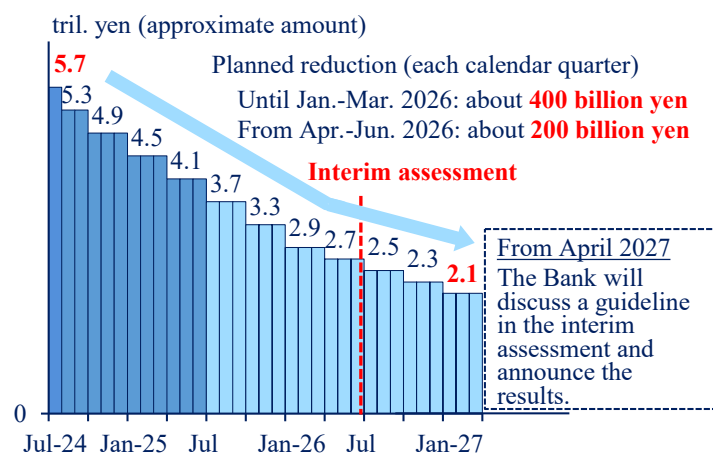
1. Long-term interest rates: to be formed in financial markets in principle
2. JGB purchases: appropriate for the Bank to **reduce its purchase amount of JGBs in a predictable manner**, while **allowing enough flexibility** to support stability in the JGB markets

In principle, the Bank will reduce the planned amount of its monthly purchases of JGBs each calendar quarter as follows.

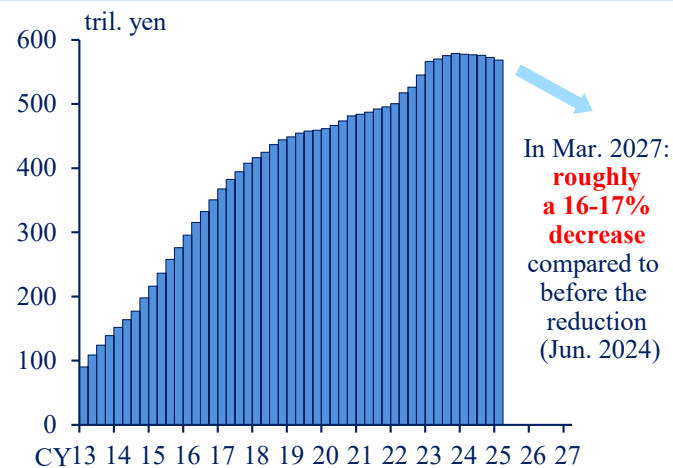
- Until January-March 2026 : about **400 billion yen** (the reduction plan decided in July 2024 will be maintained)
- From April-June 2026 to January-March 2027 : about **200 billion yen**
- The Bank will **gradually reduce** its purchase amount so that it can improve the functioning of the JGB markets in a manner that supports stability in the markets.

## Reduction in a Predictable Manner

Amount of monthly JGB purchases



The Bank's JGB holdings



## Allowing Enough Flexibility

1. The Bank will **conduct an interim assessment of the plan at the June 2026 MPM**.
2. In the case of a rapid rise in long-term interest rates, the Bank will make nimble responses by, for example, increasing the amount of JGB purchases.
3. The Bank is prepared to amend the plan at the MPMs, if deemed necessary.